

That Cypriot haircut is better than what would happen i...

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People are asking me what I think of the Cypriot bail out. Actually, to be more precise, I think they're asking me what I think of depositors in Cypriot banks losing part of their balance to contribute towards that bail out.

So, first some facts. Cypriot banks are bust due to spectacular over lending and poor decision making.

Second, with loans of many times GDP Cyprus permitted this to happen: it was a choice.

Third, it was a bad choice, but there isn't a Cypriot who did not know their country was being used as a tax haven. People can be excused for not knowing that in the UK, but not in Cyprus; there everyone knew.

Fourth, so big is the loss of capital in the banks and so small the tax base in proportion to it there is no way that Cyprus could ever cover the cost from taxation of income: a capital levy was the only thing possible.

Fifth, with no bail out the banks would have failed and as depositors would have ranked as unsecured creditors and with the government not good to make up the loss Cypriots with cash in their banks faced disaster.

So, as part of an overall package the depositors have been asked to make a contribution to the cost of the bail out. It's 6.75% on balances below €100,000 and 9.9% on those above.

Let's though, for a moment compare that with what is guaranteed in the UK in the event of bank failure - which was what Cyprus was facing. Here we guarantee deposits to £85,000. Above that it's total wipe out time - a 100% levy.

So before everyone goes wild about what's happening in Cyprus let's appreciate that the deal offered, whilst I think inappropriate on small balances, is extraordinarily generous to large depositors. They keep 90.1% of their cash when facing a loss of 100%

having held it in banks that almost anyone could see where shot through from a solvency perspective - as has been discussed openly for some time.

A capital levy in this case on those with some wealth seems to me to be reasonable. Although I would expect total shareholder wipeout and a bond haircut too. But candidly, the fuss on this issue seems to me inappropriate. Remember we saved banks in the UK to preserve the wealth of the wealthy at cost to the rest of us. It's much the same in Cyprus. Some contribution in return seems to be a not unreasonable quid pro quo.